

## FACTORS AFFECTING THE ENTERPRISE PERFORMANCE

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### ABSTRACT

*Executive leadership has potential role in formulating and executing business strategies to achieve excellence business performance. Any strategy is considered a unique way when creating value. Therefore, it is always changing even though the tools for managing strategies have not yet kept paving the pace. In addition, most companies still focus on financial measures, and their budget in that case remain the center of management control system. Meanwhile, in knowledge-based competition, the ability of the organizations to develop, nurture, and mobilize their intangible assets is critical for success. Balanced Scorecard (BSC) has been used as the solution to this performance management and strategy execution problems. This study focused on three competing paths involving four research variables, namely executive leadership, business strategy, Balanced Scorecard measures, and performance. This research was based on survey of 127 state-owned enterprises which all have legal form of Persero (per shares) and 408 publicly listed companies in Indonesia Stock Exchange (ISC). However, only 67 companies participated, therefore, the response rate was about 12 percent. The result of this research showed that the hypothesis stating the executive leadership has positive impact on performance through the Balanced Scorecard measures was supported.*

**Key words:** *executive leadership, business strategy, Balanced Scorecard (BSC) measures, and performance.*

### INTRODUCTION

Recently, business landscape has been significantly and dynamically changing. Top and senior management are continuously demanded by stakeholders to outperform competitors in order to get the above average return within its industry. In that case, it is not easy to outperform competitors. For example, top and senior management need to mobilize all resources to adapt to any significant changes in industry. For that reason, transformational change has to be done, and that is the main responsibility of every executive leader to build a sustainable competitive advantage. In line with such argument, Kotter (1996) states that three discrete actions must be taken by the leaders, namely: (1) establishing a sense of urgency, (2) creating the guiding coalition, and (3) developing a vision and strategy.

To achieve sustainable competitive ad-

vantage in the industry, executive leaders are required to formulate good business strategies and effective execution of those strategies. Besides that, management needs to choose a different set of activities to deliver a unique mix of value (Porter, 1998). It means that executive leaders must set up the governance processes to assure that strategic targets can be achieved by performing strategic business processes. Unfortunately, most of business strategies failed during the execution phase.

An empirical study by Kiechel (1982) on top companies in the USA revealed that less than 10% of effectively formulated strategy failed during execution. Similar study by Charan dan Colvin (1990) showed that the failures of the CEOs was caused by bad execution, not bad strategy. According to Kaplan dan Norton (2001), the failures of strategy execution (about 70% to 90%) have

changed the perception of most investors that the execution of strategy is much more important than the strategy itself.

The most critical problem of management today is performance management system. Strategy as a unique way to create value is changing, but the tools for measuring strategies have not kept pace. Most companies still focus on financial measures, and budget is still the center of management control system. Financial measures developed in the Industrial Era are no longer useful for capturing value creation activities in the Information Era today. According to Kaplan and Norton (2001), in knowledge-based competition, the ability of the organizations to develop, nurture, and mobilize their intangible assets is critical for success. Therefore, Kaplan and Norton (2001) have proposed the Balanced Scorecard (BSC) as the solution to this performance measurement and management problem.

Executive leaders of state-owned enterprises and publicly listed companies in Indonesia must concern about performance of the firm, because they have signed a performance contract. Theoretically, executive leaders must develop a sound business strategy and implement an effective approach to execute the strategy. The BSC approach is widely used in business world as the best practice tool in executing strategy and managing performance. This research is intended to prove the antecedents of the firm performance empirically.

The focus of this research is to test the effect of intervening variables of business strategy and the BSC measures on performance. The research problem statements are stated as follows: (a) Does executive leadership have positive impact on performance through business strategy and the BSC measures as intervening variables?; (b) Does executive leadership have positive impact on performance through the BSC measures as intervening variables; and (c) Does executive leadership have positive impact on performance through business strategy as intervening variable?

## **THEORITICAL FRAMEWORK AND HYPOTHESIS**

### **Executive Leadership**

There are some proponents describe leadership. For example, in Wikipedia (2010), leadership is defined as the process of social influence in which one person can enlist the aid and support of others in the accomplishment of a common task. Another description on leadership is Kaplan and Norton (2001a). They define that executive leadership is the process practiced by the executives in the successful transformation of an organization. In another respect, Kotter (1996) distinguishes between leadership and management. Management is a set of process that can keep a complicated system of people and technology running smoothly. Leadership is a set of process that creates organizations in the first place or adapts them to significantly changing circumstances.

In certain discussion on the strategy execution, actually executive leadership focuses on the execution part of the strategy. For example, Kaplan and Norton (2001a) state that leadership processes needed for successful transformation related to such as (1) creating inspirational vision for new strategies, (2) creating organization focus on the strategy, (3) decentralizing power and responsibility to the lowest levels of the organization, using the power of the shared vision to align and reinforce local initiatives, (4) using budget, feedback, and reporting systems to create new culture and governance process, (5) integrating strategic activities to mobilize organization and to maintain momentum for strategic change.

Besides understanding the focus of executive leadership, there is another point to be note. Senior executives need to mobilize all organization resources to adapt to any significant changes in the industry. Transformational change has to be done to build a sustainable competitive advantage. Katter (1996) states that three discrete actions must be taken by the leaders, namely: (1) establishing a sense of urgency, (2) creating the guiding coalition, and (3) developing a

vision and strategy. The leadership style of the senior executives plays a critical role in effective strategy execution. Communication is the most important factor because every leader knows that he/she cannot implement strategy without gaining the hearts and minds of all middle managers. Executive leaders depend on their managers and employees to find initiative ways to accomplish vision and mission (Kaplan 2001).

### **Business Strategy**

It is obvious that firms compete within an industry. This can be referred to the definition of industry. For more clearly, Porter (1985) defines industry as the group of firms producing products that are close substitutes for each other. Unfortunately, the boundaries of industries tend to become unclear in the hyper competition era, and competitors are more difficult to identify and anticipate (Day, 1997).

As stated by Porter (1998) that the essence of strategy formulation is coping with competition. The state of competition in an industry depends on five basic forces. These factors are such as (1) threat of new entrants, (2) bargaining power of suppliers, (3) bargaining power of buyers, (4) threats of substitute products or services, (5) rivalry among existing competitors. The corporate strategist's goal is to find a position in the industry where the company can best defend itself against those forces or can influence them in its favor. Therefore, strategy is about being different.

Many managers have failed to distinguish between strategy and operational effectiveness. Management needs both strategy and operational effectiveness. Both of them work in different way. Operational effectiveness is important but it is not enough. Operational effectiveness means performing similar activities better than rivals perform them. Meanwhile, a strategy is about strategic positioning. It means performing different activities from rivals' or performing similar activities in different ways.

Porter (1980) formulates 3 (three) types

of competitive strategy for strategic business units, namely: (1) overall cost leadership, (2) differentiation, and (3) focus. Both cost leadership and differentiation strategies are intended for broad or mass market, meanwhile focus strategy is intended for narrow market.

According Miles and Snow (1978), strategy is agglomeration of decisions where a strategic business unit aligns its managerial processes (including capacity) to its environment. Therefore, a strategic business unit can be classified into the decision patterns called Prospector–Analyzer–Defender–Reactor (P-A-D-R) framework. Prospectors must be innovative in technology and always search for new markets; Analyzers tend to implement 'second-but-better' strategy; Defenders have a tendency to engineering-oriented and focus on the establishment of stable market segments; while, Reactors tend to have strategy which is stable and very responsive to environment changes.

Furthermore, Miles and Snow (1978) state that strategy choice orientation explains the degree of adaptive effectiveness and perception of management toward business environment and how they make decision in align to those environment changes. To solve the dynamic and complex changes in environment, management must adapt in 3 (three) capability areas: (1) entrepreneurial, (2) engineering, and administration (Bluementrit & Danis, 2006; Slater, Olson & Hult, 2006). Those three areas are used as orientation dimension of strategy and to explain the behavior and choice orientation of business-level strategy.

### **Balanced Scorecard Measures**

The BSC framework is increasingly popular around the world as a proven performance and strategic management system. It was introduced by Kaplan and Norton (1992) after studying twelve companies for one year. The BSC complements the traditional measures of performance relying on financial indicators. Other dimensions which are important in the knowledge-based economy,

such as customer focus, operational efficiency, human capital, information capital, and organization capital are included in the BSC framework as drivers of future performance. The BSC framework has been developing in stages. Each stage of its development has a significant focus.

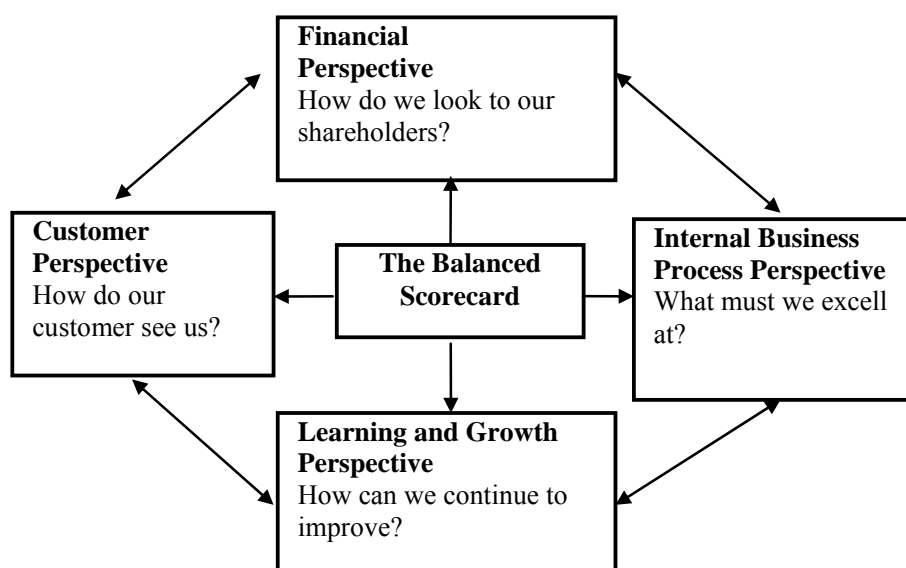
First development of the BSC was in 1990s. Originally, the BSC was intended to solve a measurement problem in the era of knowledge-based economy. The focus was mainly operational and tactical (Urrutia and Eriksen, 2005). Kaplan and Norton (1996) believed that the existing performance measurement approaches, heavily relying on accounting measures, were becoming obsolete. The lagging indicators only provided information on past performance, and failed to provide information about the drivers of future performance (Kaplan and Norton, 2001). Therefore, four perspectives - financial, customer, internal business process, and learning and growth - were introduced in order to have more balance performance measures, as shown in Figure 1.

Second development occurred when strategy map framework was developed. It was discovered that by using a strategy map, management could use the BSC framework for managing performance as well as im-

plementing strategy. It was important to realize that indicators should be developed from strategy, and the cause-effect relationship could be explicitly described. Then, a strategy could be better measured, communicated, and controlled. Therefore, the BSC was converted from operational focus to strategic focus, from management control system to strategic management system. To be a strategy-focused organization, a firm must follow five principles (Kaplan and Norton, 2001a): (1) mobilize change through executive leadership; (2) translate strategy into operational terms; (3) align the organization to the strategy; (4) motivate to make strategy everyone's job; and (5) govern to make strategy a continual process.

Third development occurred when strategy map could be used to clearly describe the linkage between a strategic issue in a perspective with other strategic issues in other perspectives. It was important to realize that a strategy is hypothesis. Strategy map enables management to have a holistic view from the top and manage strategy better. It provides management with better knowledge on how to convert intangible assets – human capital, information capital, organization capital – into tangible assets using strategy (Kaplan and Norton, 2004).

**Figure 1**  
**The Balanced Scorecard, Kaplan and Norton (1996)**



The fourth development occurred when the BSC could be used to create synergies through alignment. The BSC provides an excellent tool for corporate headquarter to create value by aligning SBUs and functional units. The BSC enables enterprise management to better execute corporate strategy and to create value and corporate advantage by coordinating and configuring its multi businesses. The recent development of the BSC introduces the role of enterprise Strategy Map and BSC in clarifying corporate priorities and communicating to each business and support, board of directors, key customers, suppliers, and alliance partners. The use of strategy map and the BSC for implementing corporate-level strategy intends to provide guidelines on how to design a measure and management system to create and gain enterprise-derived value (Kaplan and Norton, 2006).

The fifth development related to the execution premium, and it is about linking strategy to operations for competitive advantage. According to Kaplan&Norton (2008), strategy development and the links between strategy and operations remain adhoc, varied, and fragmented, and companies can benefit from taking a systems approach to link strategy with operations. By implementing a comprehensive and integrated management system, management will overcome the difficulties and frustration that most of them experience when attempting to implement their strategies.

It is already proven that the BSC has a significant role in successful strategy execution and performance management. Many organizations have experienced the BSC to be a useful management tool in performance management and strategy execution (Kaplan and Norton, 1996a, 1996b, 1996c, 1996d, 2001b, 2001c, Gumbus and Lyron, 2002). In the era of global competition, the role of the BSC increases sharply due to the need for more effective strategy execution.

The implementation of the BSC is gaining wide acceptance, including in not-for-profit organizations, such as healthcare or-

ganizations (Baker and Pink, 1995). The BSC can assist management to clarify, gain consensus about strategy, communicate strategy throughout the organization, align departmental and personal goals to strategy, link and align strategic objectives to long-term and annual budgets, perform periodic and systematic strategic review, and provide feedback to evaluate and improve strategy execution (Kaplan and Norton, 1996b:19).

In conclusion, the BSC is a proven framework for describing, measuring, communicating, and executing, strategy and improving performance. Organizations around the world have gained significant benefits and improvements after implementing the BSC. The key success of the BSC implementation depends on strong and consistent commitment from top management, ownership from all members of organizations, and sufficient technological support. Otherwise, organizations will not get what they expect from their BSC.

### **Performance**

Business unit performance is the most important issue in competitive strategy formulation and execution. Mia and Clarke (1999) defines a business unit as either an organization or a segment of an organization which is comprised of the usual business activities such as marketing, production, finance, personnel, distribution, customer services, and R& D. The performance of a business unit is defined as the extent to which the unit is successful in achieving its planned targets.

The use of the Balanced Scorecard measures helps managers of business units to improve performance. The Balanced Scorecard is a strategy deployment tool, and therefore, a representative of business unit strategic targets and performance measures. The use of the Balanced Scorecard measures provides managers with information on results or feedback on strategy execution. Feedback helps managers to improve performance. It allows managers to identify problems, correct it, as well as to better manage uncertainty. The effectiveness of

business strategy execution using the Balanced Scorecard approach depends on executive leadership of managers which focuses on the execution part of strategy itself. Therefore, executive leadership can affect performance of a firm.

The preceding theoretical discussion can be summarized with the following hypotheses:

H1: Executive leadership has positive impact on performance through business strategy and Balanced Scorecard measures as intervening variables

H2: Executive leadership has positive impact on performance through Balanced Scorecard measures as intervening variables

H3: Executive leadership has positive impact on performance through business strategy as intervening variable.

## RESEARCH METHOD

### Research Model

Based on the theoretical background, the research model is built and presented in Figure 2. The research model shows the relationship among executive leadership, business strategy, Balanced Scorecard measures, and organization's performance. The focus of this research is empirically testing the three competing paths: (1) executive leadership, business strategy, Balanced Scorecard to performance; (2) executive leadership, Balanced Scorecard measures to performance; and (3) executive leadership, business strategy to performance.

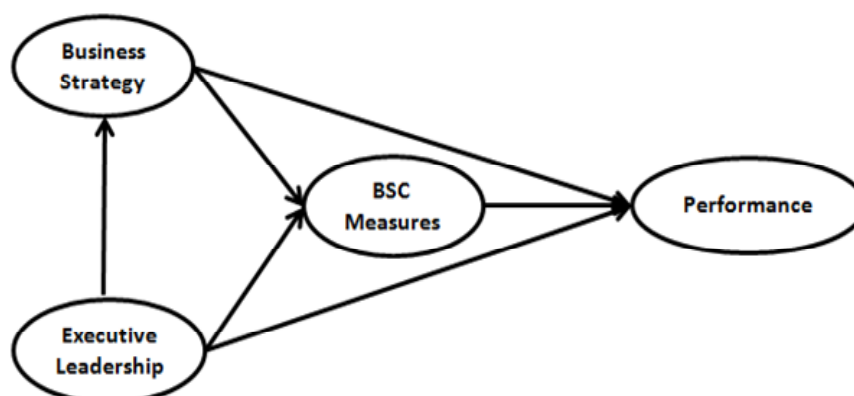
### Research Design

This research is designed as causal studies (Cooper & Emory, 1995). The research can also be classified as quantitative research at the level of explanatory. The main purpose is to test the main hypotheses if executive leadership has positive impact on performance through business strategy and Balanced Scorecard measures as intervening variables, and if executive leadership has positive impact on performance through the Balanced Scorecard measures as intervening variables. Data is collected through questionnaires. The unit analysis of this research is strategic business unit. The respondents are the corporate secretary of the state-owned enterprises and go public companies listed in the Indonesian Stock Exchange. This research is a behavior research using the perception of corporate secretaries who are considered to have holistic knowledge about the research variables. The time dimension of this research is cross section.

### Population and Sample

The population of this research is all state-owned enterprises which have legal form of Persero (127 companies), and publicly listed companies in the Indonesia Stock Exchange (408 companies). To avoid low response, questionnaires were sent through facsimile and email to the population (a census survey). To improve the response rate, interview by phone was conducted. Until the

**Figure 2**  
**Research Model**



time limit of data collection (1 month), 67 questionnaires were filled completely, or response rate was about 12 percent.

### **Classification of Variables**

Based on the model, this research has 3 (three) types of variable. Each variable has its own role in affecting the relationship among others within the model. Those variables can be classified as follows: (1) Performance is dependent variable; (2) Executive Leadership is independent variable; (3) Business Strategy is intervening variable; and (4) Balanced Scorecard Measures is intervening variable.

### **Operational Definition**

#### **Executive Leadership**

Executive leadership is operationally defined as how transformational change begins at the top, with discrete actions by leaders of SBUs. Therefore, executive leadership was assessed by statements using Kotter's framework (Kaplan & Norton, 2001) and showing the degree of how SBU leader had adapted to the environment changes. Those statements included: (1) SBU leader establishes sense of urgency that the organization must change in line with environment changes, (2) SBU leader creates vision and mission of SBU to adapt to the dynamic environment changes, (3) SBU leader mobilizes resources and creates guiding coalition with other parties to execute the shared vision, mission, and strategy; and (4) SBU leaders owns solid and strategy-oriented cross-functional teams. Executive leadership was measured by 5 (five) point Likert scale.

#### **Business Strategy**

Business Strategy is operationally defined as the orientation of business strategy of the strategic business unit which operates in the main market. Therefore, the orientation of the strategic unit was assessed by statements as a simplification of the Miles and Snow's framework. Those statements included: (1) the degree of importance that the strategic business unit owns innovative products, (2)

the degree of importance that the strategic business unit needs to enter new markets, (3) the degree of importance that the strategic business has very high image, (4) the degree of importance that the strategic business unit monitor market changes frequently, and (5) the degree of importance that the strategic business unit owns innovative technology. Business strategy was measured by 5 (five) point Likert scale.

#### **Balanced Scorecard Measures**

The variable of the Balanced Scorecard Measures is defined as how intensive the SBU uses the measures of strategy which consists of financial and nonfinancial measures to manage performance. Therefore, this variable was assessed by the statements using Kaplan and Norton's framework of the Balanced Scorecard. Those statements included : (1) how intensive SBU uses the Financial Perspective measures (for example: profit, cash flow, cost, revenue, etc.), (2) how intensive SBU uses the Customer Perspective measures (for example: excellent service, lowest price, image, etc.), (3) how intensive SBU uses the Internal Business Perspective measures (measures related to operations, marketing, compliance, and others), and, (4) how intensive SBU uses the Learning and Growth Perspective measures (measures related on human capital, information capital, and organization capital activities). The variable of the Balanced Scorecard measures was measured by 5 (five) point Likert scale.

#### **Performance**

Performance is operationally defined as the organization's (SBU's) performance, both financial and nonfinancial performance relative to its competitor's performance. Therefore, performance was assessed by following statements: (1) return on investment, (2) margin on sales, (3) capacity utilization, (4) customer satisfaction, and (5) product quality. Performance was measured by 5 (five) point Likert scale.

### Analysis Method

The Path Analysis was used as analysis method of this research. The path regression equations for this research were presented as follows.

$$BSO = \alpha_1 + \beta_1 EXL + e, \quad (1)$$

$$BSM = \alpha_2 + \beta_2 EXL + \beta_3 BSO + e, \quad (2)$$

$$ORP = \alpha_3 + \beta_4 EXL + \beta_5 BSM + \beta_6 BSO + e, \quad (3)$$

where, EXL is Executive Leadership; BSO is Business Strategy; BSM is the Balanced Scorecard Measures; and ORP is Performance; e is residual error.

### Validity and Reliability Tests

The research instruments of Business Strategy, Executive Leadership, Balanced Scorecard Measures, and Performance were valid. The correlations of each item to total score were more than 0.40. The research instruments were reliable. The Cronbach alphas were more than 0.60 (Business Strategy was 0.69, Executive Leadership was 0.72, Balanced Scorecard Measures was 0.79, and Performance was 0.74)

## DATA ANALYSIS AND DISCUSSION

### Analysis

The result of this research showed that executive leadership (EXL) was able to explain the data variability occurred in the business strategy (BSO). The F-test was significant (less than 5%), and the value of adjusted R square = 0.308 (R square = 0.319). Furthermore, executive leadership positively affected business strategy (standardized  $\beta_1=0.565$ , unstandardized  $\beta_1= 0.479$  t-test was significant, less than 5%).

The result of this research showed that both executive leadership (EXL) and business strategy (BSO) were able to explain the variability occurred in the Balanced Scorecard measures (BSM). The F-test was significant (less than 5%) and the value of adjusted R square = 0.75 (R square = 0.757). Furthermore, executive leadership (EXL) positively affected the Balanced Scorecard measures (BSM), standardized  $\beta_2=0.468$  and unstandradzed  $\beta_2 = 0.346$  , t-test was sig-

nificant, less than 5%, and business strategy (BSO) also positively affected the Balanced Scorecard measures (BSM), standardized  $\beta_3=0.516$  and unstandardized  $\beta_3=0.449$ , t-test was significant, less than 5%.

The result of this research showed that executive leadership (EXL), business strategy (BSO), and the Balanced Scorecard measures (BSM) were able to explain the variability occurred in the performance (ORP). The F-test was significant (less than 5%) and the value of adjusted R square=0.819 (R square=0.827). Furthermore, executive leadership (EXL) positively affected performance (ORP), standardized  $\beta_4=0.212$  and unstandardized  $\beta_4=0.177$ , t-test was significant, less than 5%, and business strategy (BSO) also positively affected performance (ORP), standardized  $\beta_5=0.179$  and unstandardized  $\beta_5=0.176$ , t-test was significant, less than 5%, and the Balanced Scorecard measures (BSM), standardized  $\beta_6=0.593$  and unstandardized  $\beta_6=0.669$ , t-test was significant, less than 5%.

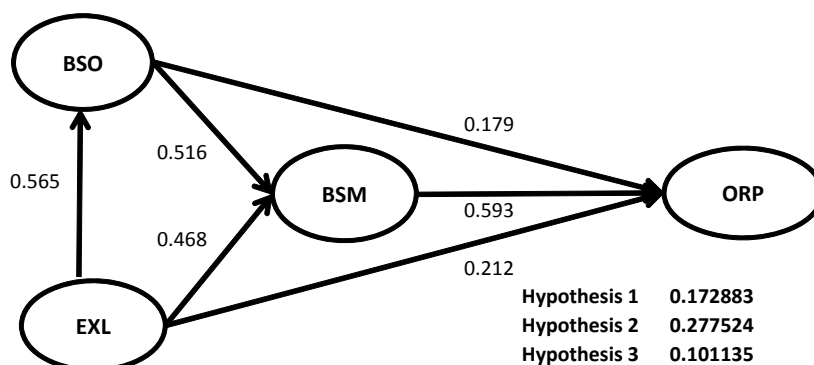
The beta coefficients of the three competing paths were plotted into the model as presented in Figure 3. Based on the beta coefficients, the indirect effects were calculated by multiplying the beta coefficients of the intervening variables of each path.

This research did not support the path in hypothesis I stating that executive leadership has positive impact on performance through business strategy and Balanced Scorecard measures as intervening variables. The direct effect of executive leadership on performance was 0.212, while the indirect effect was 0.172 (the result of  $0.565 \times 0.516 \times 0.593$ ). Because the value of the direct effect (0.212) was bigger than the value of indirect effect (0.172), it was concluded that the executive leadership directly affected performance.

This research supported the path in hypothesis II stating that executive leadership has positive impact on performance through the Balanced Scorecard measures as intervening variables. The direct effect of executive leadership on performance was 0.212, while the indirect effect was 0.278 (the



**Figure 3**  
**Beta Coefficient of the Research Variables**



result of  $0.468 \times 0.593$ ). Because the value of the direct effect (0.212) was smaller than the value of indirect effect (0.278), it was concluded that the executive leadership did not affect performance directly, but through the Balanced Scorecard measures.

This research did not support the path in hypothesis III stating that executive leadership has positive impact on performance through business strategy as intervening variable. The direct effect of executive leadership on performance was 0.212, while the indirect effect was 0.101 (the result of  $0.565 \times 0.179$ ). Because the value of the direct effect (0.212) was bigger than the value of indirect effect (0.101), it was concluded that the executive leadership directly affected performance.

### Discussion

This research reports a significant finding. As hypothesized in hypothesis II, executive leadership is proven empirically to have a positive impact on performance through the Balanced Scorecard measures as intervening variables. The path analysis shows that this path has the strongest indirect effect. The result provides strong supports that leadership style of the senior executives plays a critical role in effective strategy execution. It provides supports that the role of executive leadership is crucial in the Balanced Scorecard measures implemented by the SBUs' leaders in order to manage and achieve excellence organization's performance. The result supports Kotter (1996) that leaders

must take three discrete actions, namely : (1) establishing a sense of urgency, (2) creating the guiding coalition, and (3) developing a vision and strategy.

Since its development in 1998, the Balanced Scorecard has been used to solve measurement problem in the knowledge-based competition. It provides holistic approach to deal with the 90 percent failures rate in strategy execution. According to Kaplan and Norton (2001a), opportunities for creating value are shifting from managing tangible assets to managing knowledge-based strategies that deploy an organization's intangible assets. Financial measures are lag indicators because it reports the consequences of past actions. Heavy reliance on financial indicators promotes short-term behavior that sacrifices long-term value creation for short-term performance. The Balanced Scorecard approach supplements financial measures with nonfinancial measures that drive future performance. The Balanced Scorecard has been used as a tool for managing and executing strategies effectively. In effective strategy execution, the leadership style of the senior executives plays a critical role, especially the communication to all middle managers.

This research supports arguments and empirical findings that strategy execution is more important than the quality of the strategy itself. Therefore, this study provides no support to the path in hypothesis I, stating that executive leadership has positive impact on performance through business strategy

and the Balanced Scorecard measures as intervening variables. This research convinces a study conducted by Ernst & Young (1998) to 275 portfolio managers revealing that the strategy execution or implementation is the most important factor shaping management and corporate valuations.

Failure of strategy execution can be caused by many factors. The following main factors have been identified as barriers of successful strategy execution Niven (2003), namely: (1) vision barrier, (2) people barrier, (3) management barrier, and (4) resource barrier. Vision barrier happens when most members of an organization do not understand strategy. It is difficult to create value and to gain superior performance when people do not understand strategy and only 5 percent of employee understand strategy. Employees must have good understanding toward where their organization wants to go, and what strategy that will be used to go there. People barrier happens when competency of human capital is not aligned with strategy requirements, and when reward system does not support strategy implementation. Only 25 percent of managers' incentive was linked to strategy. Management barrier happens when managers do not pay attention to strategic issues. Most manager spend less than one hour in a month to discuss strategy. Resource barrier happens when budget is not linked to strategy. Only 60 percent of organizations links budget to strategy.

The success of strategy execution is more important than strategy implementation because of its real impact on both shareholders and customer values. According to Becker, Huselid & Ulrich (2001), a 35 percent improvement in the quality of strategy implementation, for average firm, was associated with a 30 percent improvement in shareholder value. This research provides support to Charan and Bossidy (2002), stating that every leader must have good understanding about strategy execution, as follows: (1) execution is a discipline, and integral to strategy; (2) execution is the major job of the business leader; (3) execution

must be a core element of an organization's culture. The Balanced Scorecard provides framework for effective strategy execution.

This research provides no support to hypothesis 3 stating that executive leadership has positive impact on performance through business strategy as intervening variable. In fact, the indirect effect is the weakest one. Again, this convinces the critical role of the Balanced Scorecard measures as the intervening variable between executive leadership and performance.

## **CONCLUSION, IMPLICATION, SUGGESTIONS, AND LIMITATIONS**

### **Conclusion**

In general, it can be concluded as the following. First of all, this research provides no support for hypothesis stating that executive leadership has positive impact on performance through business strategy and Balanced Scorecard measures as intervening variables. Secondly, it supports hypothesis stating that executive leadership has positive impact on performance through the Balanced Scorecard measures as intervening variables. Finally, it actually provides no support for hypothesis stating that executive leadership has positive impact on performance through business strategy as intervening variable.

### **Implication**

This research has implication to the critical role of executives in every strategy execution. This is the real meaning of the executive leadership, a leadership model in which leaders put more focus on the execution of strategy. Although the executive leadership has similar goals as transformational leadership, it is quite different from its focus.

### **Suggestions**

There are some suggestions based on the results of this research. First, for the practitioners, especially leaders of organization, it is advisable that they focus on strategy execution using the BSC in order to improve performance. Secondly, for the researchers, it is required that they should expand this

research to other industries so that generalization can be better made. Last of all, in connection with the model, it is recommended that researcher should develop a better model so that the link among the Balanced Scorecard measures can be captured.

### Limitation

This research has limitations, notably the BSC measures have failed to capture the real condition and strategic linkage mechanism of the real BSC implementation at the SBUs. Future research needs to address and elaborate the issue of strategic linkage among perspectives of the BSC measures by extending the instrument of this study. A second limitation of this research relates to the time limit for the survey. The response rate of 12 percent from respondents might affect the research results, especially if it is used for a generalization purpose.

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